

GENERIC BANK GUIDE FOR FARM BUSINESSES IN RELATION TO FINANCE APPLICATIONS



IRISH
BANKING
FEDERATION

INTRODUCTION

There may well be differences in the way in which banks manage the business customer relationship, including differences in the extent and detail of information sought. However, the following is a generic, sample checklist of the range of information likely to be requested of farm businesses – compiled by the Irish Banking Federation (IBF), the representative body for the banking sector.

The aim of this checklist is to help explain how you can best position your farm business to secure the funding it needs to remain viable or to help your business to return to viability.

Making your application for bank finance

When applying for bank finance, you need to provide sufficient up-to-date information so that the bank can make a fair and proper assessment of your application. The bank generally does this in line with what are known as the '5 Cs' – Character, Capacity, Capital, Collateral and Conditions. These are presented in more detail below and they show why it is in your interests to provide the following information in support of your application for finance.

1. The Business

A description of your farm business – type, system, scale, income, costs, etc. This is likely to include the following information as appropriate.

- Land: total acres farmed – owned and/or leased
- Livestock: numbers and value for each of dairy herd, suckler cows, replacements; livestock saleable in next 3-6 months and likely proceeds
- Milk Quota: total litres owned, volume supplied in most recent quota years, expected monthly milk cheque

- Farm Buildings: description of milking parlour, dairy/suckler cow accommodation, slurry accommodation, grain store
- Farm Machinery: machinery owned, existing financial commitments, details of work for which contractor is hired
- Feedstuffs: type, tonnes and value
- Tillage: acreage and crop(s)
- Farm Compliance: would farm business pass a cross-compliance inspection, REPS inspection, nitrates inspection?

2. Financial Information

Full information on income and costs generated by the farm business as well as non-trading and non-farm income – likely to include the following as appropriate.

- Audited accounts for most recent years and farm budgets for the current year
- Cashflow forecast for the relevant period
- Non-trading income: single farm payment, REPS, area aid, State aid, suckler cow premium, welfare payment, waste management grant

- Non-farm income: income generated by the farmer and/or spouse, contracting income
- Costs/Expenses: farm business costs incl. annual hired labour, land rental
- Current assets: savings, shares, life assurance policies, off-farm investments, pensions
- Liabilities: other bank debt or credit facilities (farm and non-farm), machinery hire purchase and leasing, co-op and merchant debt, farm contractors, veterinary
- Bank statements: covering recent months, possibly longer if accounts with another financial institution
- Tax compliance: Revenue Commissioners confirmation that tax affairs are in order

3. The Purpose

An explanation of why the credit is needed and how it is to be used. Proposed repayment schedule, total costs of project and outline of how it is to be funded.

4. The Risks

An outline of the risks involved and the steps being taken to deal with these, including the capacity to deal with overruns.

Assessing your application for bank finance

Banks generally assess any application for finance from a business under the following headings, which are known as the '5 Cs' of lending.

Character of the borrower

Good character is a basic prerequisite for any borrower. Integrity and reliability are the qualities that mean you will make every effort to repay your debt. In relation to your farm business, you need to be able to demonstrate that you are an effective manager with a good reputation. It's also important to be honest and upfront about your credit history and any business problems you may have had. How you resolved these will, of course, be helpful in determining how they affect your application.

Capacity to repay

You will need to show how your farm will generate sufficient cashflow to repay the credit facility you are seeking. Detailed financial forecasts must show how repayments will be generated. Beyond this, you will also need to explain your capacity to repay the credit facility if the business does not develop as planned. Other sources of income - such as investments or

off-farm income - skills you could use to earn additional income, or the support of an earning spouse could provide a sufficient backup plan.

Capital in the business

Business capital is split between equity (the money that the owners and investors have put into the business) and debt (money borrowed from banks or other sources). Equity capital acts as a cushion to absorb first losses, while debt capital must be repaid to the lender irrespective of how the business fares. Since debt capital also comes at a cost of interest, the more debt a business has relative to equity, the higher the level of risk. Start-up businesses potentially can be a high risk for lenders. So if you are seeking to borrow money for a new business – such as a green field farm development – your bank will need to see that you have put in a reasonable level of your own funds.

Collateral to offer

Collateral is the security given to a lender for protection in case the business cannot repay the loan. It can be any one of a range of business and personal assets, including buildings, vehicles, machinery and land title. If the farm cannot generate enough cash to repay the credit facility, the lender

may have recourse to the collateral. But for banks generally recourse to collateral is always the last resort. The farm is viewed as a key source of repayment; however, other sources of income may be taken into account - e.g. income from off-farm employment - when assessing an application for credit. It is always advisable to seek independent legal advice before providing collateral against credit facilities.

Conditions in the market

Conditions and trends in the agri-food sector and the overall economy are crucial factors in determining the success of your farm business. Opportunities or threats to your business can arise from external factors such as commodity price fluctuations, weather and disease effects, external regulation and EU policy. You may not be able to control all of these factors, but you must be aware of them and be prepared to respond to change. When you look for bank finance, you need to be able to give your assessment of the agri market and how your farm business will cope with potential changes in market conditions.

Working with your Bank

Banks need businesses just as businesses need banks. Your bank is there to help you achieve your business goals. Here are some useful tips to help develop a good working relationship with your bank.

- Keep your bank up to date on a regular basis on how your business is performing and be open and upfront. Be proactive and contact your bank to address any pressing issues at an early stage.
- Present up-to-date financials on a regular basis and ensure the figures are accurate. Avoid delays in submitting up-to-date information if it has been requested by your bank.
- Your bank can also be an invaluable source of advice and information in relation to finance and other business matters.

The Irish Banking Federation (IBF) is the leading representative body for the banking and financial services sector in Ireland, representing some 80 member institutions and associates, including licensed domestic and foreign banks and institutions operating in the financial marketplace here.